

## Message Text

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ORIGIN SS-30

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S/S - MR. GAMMON

----- 103375

R 120158Z DEC 73

FM SECSTATE WASHDC

TO AMEMBASSY PHNOM PENH

CINCPAC HONOLULU HI

COMUSSAG

INFO AMEMBASSY BANGKOK

AMEMBASSY SAIGON

S E C R E T STATE 242733

EXDIS

E.O.11652:GDS

TAGS: EAID, EFIN, CB

SUBJECT: SEVERE INFLATION IN CAMBODIA

REF: PHNOM PENH 13325

1. APPRECIATE YOUR ANALYSIS REFTEL. YOUR POLICY PRE-  
SCRIPTIONS NOW UNDER INTERAGENCY REVIEW. ON WHOLE YOUR  
PROPOSALS FAVORABLY RECEIVED HERE. YOUR ANTICIPATED AD-  
DITIONAL FUNDING NEEDS POSE SEVERE PROBLEMS FOR US TO WHICH  
WE WILL ATTEMPT TO RESPOND AFTER COMPLETING OUR REVIEW HERE  
OF YOUR REQUIREMENTS AND OVERALL A.I.D. FUNDING AVAILABI-  
LITIES.

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2. WE CONCUR IN YOUR ASSESSMENT THAT DECREASE IN SUPPLY OF  
GOODS IS CHIEF CAUSE OF CURRENT SEVERE INFLATION. THE IM-  
PACT OF THIS REDUCTION IN BOTH DOMESTIC AND IMPORTED GOODS  
FLOWS ON PRICES MAY ALSO HAVE BEEN MAGNIFIED BY DECREASING

AREA AND POPULATION UNDER GKR CONTROL. WE WOULD APPRECIATE ANY ADDITIONAL THOUGHTS YOU MAY HAVE RE POSSIBLE WIDE SCALE FLIGHT FROM RIELS INTO GOODS AND INCREASES IN THE VELOCITY OF CIRCULATION OF MONEY. FROM OUR LESS ADVANTAGED VIEWPOINT WE WOULD BE LESS INCLINED TO SUSPECT SIGNIFICANT CHANGES IN VELOCITY. THE 275 PERCENT RATE OF INFLATION SHOULD LONG AGO HAVE EATEN UP CONSUMER SAVINGS. EXCEPT FOR

SAVINGS, IT WOULD SEEM THAT THE INSTITUTIONAL FACTORS UNDERLYING VELOCITY (E.G., LENGTH OF WAGE PERIOD) ARE QUITE RIGID IN A SITUATION WHERE SUCH LARGE NUMBERS ARE ON THE GOVERNMENT PAYROLL. SIMILARLY, WE WOULD THINK THAT THE SECURITY SITUATION AND DIMINISHMENT OF REAL CONSUMER PURCHASING POWER WOULD MITIGATE AGAINST SPECULATIVE COMMODITY HOARDING.

3. WE WOULD APPRECIATE ANY ADDITIONAL INFORMATION YOU COULD OFFER ON HOW SUPPLY OF BASIC CONSUMER NECESSITIES OTHER THAN RICE MIGHT BE AUGMENTED. WE BELIEVE IT MIGHT BE POSSIBLE WITHOUT INORDINATE EXPENDITURES TO IMPOR FROM VIETNAM OR OTHER SEA COUNTRIES ITEMS SUCH AS FISH, VEGETABLES, ETC. BASED ON PRICE DATA AVAILABLE HERE ON BASIC FOOD STUFF IN CAMBODIA AND VIETNAM, BELIEVE WE CAN MAKE SOME PRICE COMPARISONS. WOULD APPRECIATE ANY THOUGHTS YOU HAVE ON THIS MATTER, INCLUDING POSSIBLE EXCHANGE RATE CHANGES NEEDED TO FACILITATE SUCH IMPORTS, AND POSSIBILITIES OF ARRANGING COORDINATED GKR-GVN TRANSPORTATION OF SUCH COMMODITIES. (AS A CODE 941 COUNTRY, VIETNAM IS, OF COURSE, CURRENTLY ELIGIBLE FOR CIP PROCUREMENT OF FOODSTUFFS).

4. REQUEST FURTHER CLARIFICATION ON YOUR PROPOSED RICE STRATEGY. PROPOSAL SEEMS SOUND, BUT WE MUST RESERVE JUDGMENT TILL WE KNOW MORE OF THE DETAILS AND THE MECHANICS OF THE PROPOSED SYSTEM. "FLOODING" THE MARKET WITH RICE AND ESTABLISHING A WORKABLE PRICE CEILING WILL REQUIRE THAT THE GKR COMPLETELY, AND ON A SUSTAINED BASIS, SECRET

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MEET MARKET DEMAND AT THE PROPOSED PRICE. IN THIS CONTEXT SEVERAL POINTS EMERGE. IN A NEAR MONOPSONISTIC BUYING SITUATION SUCH AS WOULD PREVAIL IN BATTAMBANG, IT IS EXTREMELY DIFFICULT TO ESTIMATE WHAT PRICE WOULD BE REQUIRED TO CLEAR THE MARKET. IT IS CONCEIVABLE THAT THE REQUIRED PRICE COULD BE ABOVE THAT REQUIRED TO PROVIDE A DEFLATIONARY SHOCK TO THE PHNOM PENH MARKET. EVEN IF THE BATTAMBANG RICE CAN BE ACQUIRED, THERE REMAINS THE PROBLEM OF GETTING IT TO PHNOM PENH. MOREOVER, THE AMOUNT OF RICE REQUIRED TO SUSTAIN ANY GIVEN PRICE IN THE PHNOM PENH MARKET IS NOT CALCULABLE WITH ANY DEGREE OF CONFIDENCE. EVEN WITH ADDITIONAL U.S. AND BATTAMBANG RICE, THE GKR WOULD HAVE TO BE PREPARED TO DIP DEEPLY INTO STOCKS.

WOULD THIS BE FEASIBLE WHILE THE MEKONG INTERDICTION  
THREAT REMAINS?

5. WE HAVE SEVERAL TECHNICAL QUESTIONS ON THE MECHANICS  
OF THE RICE MARKETING SYSTEM. WHAT IS THE PROPOSED  
MECHANISM FOR CHANNELING THE RICE INTO THE PRIVATE

SECTOR - WILL THE GKR SELL RICE IN UNLIMITED QUANTITIES TO  
ALL PERSONS ( OR MERCHANTS) AT THE 8,000 RIEL PRICE? HOW  
WILL BALANCE BE MAINTAINED BETWEEN PUBLIC AND PRIVATE SEC  
TOR SALES AT RETAIL LEVEL? CAN WE ASSUME THAT DIFFERENCE  
BETWEEN THE PROPOSED 9,000 RIEL MARKET PRICE AND 8,000  
RIEL GKR PRICE WILL REPRESENT ALLOWABLE RETAIL MARGIN?  
WILL THIS PRICE DIFFERENTIAL BE PRESERVED THROUGH LIMITING  
ELIGIBILITY FOR RICE PURCHASES FROM THE GKR, SETTING LARGE  
MINIMUM TRANSACTION QUANTITIES FOR GKR SALES OR BY OTHER  
MEANS? WOULD ALSO APPRECIATE ANY ADDITIONAL THINKING YOU  
MAY HAVE ON THE INCREMENTAL RICE REQUIREMENT.

6. REQUEST YOUR THINKING ON INTRODUCTION OF FINANCIAL  
RATE (ALSO APPLICABLE TO EXPORTS) WHICH WOULD BE TRULY  
FLOATED. BELIEVE THAT WE SHOULD GIVE SERIOUS CONSIDERATION  
TO SUCH A SCHEME.

7. BELIEVE THE SALARY RATE INCREASE QUESTION SHOULD CON-  
TINUE TO RECEIVE VERY CAREFUL ATTENTION. WE WOULD APPRE-  
CIATE MISSION THINKING ON POLITICAL RAMIFICATIONS OF HOLD-  
ING THE WAGE INCREASE TO 15 PERCENT. REALIZE THAT A  
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GREATER RATE OF INCREASE IN PUBLIC SECTOR WAGES WOULD FUR-  
THER INCREASE THE GROWTH OF MONEY SUPPLY, BUT IN THIS CASE  
THE WAGE RATE LAG HAS BEEN SO GREAT AS TO MAKE A SOMEWHAT  
LARGER WAGE INCREASE APPEAR TO BE THE LEAST OF THESE  
EVILS. ASIDE FROM DISTRIBUTIONAL BENEFITS, THIS MIGHT  
ALSO MAKE YOUR PROPOSED EXCHANGE RATE POLICY MORE POLITI-  
CALLY ACCEPTABLE TO GKR. IT WOULD BE USEFUL IF MISSION  
COULD SUPPLY INFORMATION ON THE DEGREE TO WHICH CIVIL SER  
VICE AND MILITARY WAGES ERODED OVER CY 1973.

8. REGARDING RELATIONS WITH THE IMF, BELIEVE EFFORTS  
SHOULD BE MADE TO REDUCE POSSIBILITY OF CONFRONTATION  
(BOTH HERE AND THERE). WE ARE, HOWEVER, PREPARED TO TAKE  
SOME RISK SINCE IT SEEMS CLEAR THAT A PROGRAM AS BROAD AS  
YOU SUGGEST COULD ONLY BE IMPLEMENTED WITH A MORE DIRECT  
U.S. INVOLVEMENT. WE WILL TRY TO PAVE WAY WITH IMF  
WASHINGTON STAFF ONCE PACKAGE IS FINALIZED.

9. REQUEST RESPONSE PRIOR TO PRESENTATION OF PACKAGE TO  
GKR. RUSH

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<< END OF DOCUMENT >>

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